

U. S. DOT's Essential Air Service Program in Iowa

December 2014

Overview

Following deregulation of the airline industry in 1978, it became apparent small communities could be at risk of losing airline service. The Essential Air Service (EAS) program was established under the U.S. DOT to insure a minimal level of scheduled airline service to those communities by subsidizing service that would connect them to the U.S. national air network through a major hub airport.

The original intent of EAS was to maintain air service until such time demand grows and the subsidy is no longer needed. In reality, for most communities, once a service is subsidized, it is needed on a permanent basis.

Despite some fundamental problems with the program, EAS has been responsible for keeping passenger air service at several airports in Iowa. Currently, there are 143 communities nationwide receiving EAS subsidized air service, including five in Iowa (Burlington, Fort Dodge, Mason City, Sioux City, and Waterloo).

The amount of funding needed to support EAS and the number of communities participating in the program has grown over the years. Additional support expenses accrue through state and federal grant programs, security staffing, and FAA operational requirements that can be expensive. Current annual EAS subsidy rates for airports in Iowa are:

Sioux City	\$611,434 (American)
Waterloo	\$945,546 (American)
Mason City	\$3,715,952 (Air Choice One)
Fort Dodge	\$3,715,952 (Air Choice One)
Burlington	<u>\$1,917,566</u> (Air Choice One)
Total	\$10,906,450

Eligibility

In order for an airport to be eligible for EAS, it must have received scheduled commercial passenger service as of October 1978 and could not have been closer than 70 miles to a medium- or large-hub airport (Chicago, Minneapolis, Kansas City, Milwaukee, Omaha, or St. Louis).

At this time, no new communities can enter the program should they lose their unsubsidized service. In 2012, the "Federal Aviation Administration (FAA) Modernization and Reform Act of 2012" (Public Law No. 112-95) capped the communities in the 48 states that are eligible to participate in the program. Only communities receiving EAS subsidized service between September 30, 2010, and September 30, 2011 would remain eligible for the program.

The 2012 law also required that to remain in the EAS program, subsidized communities must maintain an average of ten passenger enplanements per service day. The law provides exceptions for communities that are more than 175 driving miles from the nearest large or medium hub airport, however, no airports in Iowa meet this exception.

EAS Eligibility Rules Becoming More Rigid

The bigger issue ahead for some EAS communities in Iowa could be the \$200/passenger subsidy cap requirement the U.S. DOT will begin to enforce for FFY 2015. Communities will have until September 30, 2015 to stay below the cap based on October 2014 - September 2015 subsidy and enplanement levels. This could be a concern for the communities of Burlington, Fort Dodge, and Mason City.

There is an exception to the cap if a community is more than 210 miles from a medium or large hub airport, but Burlington is 188 miles to St Louis (a large hub), Fort Dodge is 156 miles to Omaha (a medium hub), and Mason City is 133 miles from Minneapolis (a large hub).

The proposed subsidy cap policy enforcement will allow communities to petition the Secretary of Transportation for a waiver from the \$200 cap based on local situations and likelihood of improving performance. The following table shows projections based on 12,000 passengers annually and the subsidy for each community.

Community	Estimated Subsidy	Estimated Passengers (enplaning and deplaning)	Estimated Per Passenger Subsidy Rate
Burlington	\$1,917,566	12,000	\$160
Fort Dodge	\$3,715,952	12,000	\$310
Mason City	\$3,715,952	12,000	\$310

Under any scenario, unless changes are made to provisions in the EAS program, threatened communities will need to place an emphasis on boosting use of air service in their community, or face the threat of losing service altogether.

Threats to EAS

Political and funding considerations already cloud the future of EAS. This uncertainty of the EAS program, coupled with a lack of available pilots, and the continued loss of suitably-sized aircraft, has resulted in a declining number of carriers bidding to provide EAS service.

New congressionally mandated FAA regulations have decreased the number of pilots available for EAS carriers. The new regulations significantly increase pilot flight experience for airline operations using airplanes with more than nine seats. Accordingly, communities like Burlington, Fort Dodge, and Mason City are receiving service on 9-seat Cessna Caravans, even though air service markets can support the use of larger aircraft.

Despite market demands, many of the most suitably-sized aircraft are disappearing. Most of the smaller 15-19 seat turbo-prop fleet has already been retired, and smaller regional jets are being retired as well. The "Consolidated and Further Continuing Appropriations Act, 2012" (Public Law No: 112-55) removed aircraft size requirements so communities can now waive service on larger aircraft for smaller planes like the nine-seat Cessna Caravan. However, once a community moves to service on these smaller aircraft, it could be challenging to return to larger aircraft and higher service levels in the current environment.

Synopsis of EAS at Iowa Airports

Sioux City and Waterloo

Service in Sioux City and Waterloo became subsidized in 2012 after Delta withdrew from the market. American Airlines provides service from both of the communities to Chicago and the service at both airports appears to be stable at this time.

Burlington

Burlington currently receives service by Air Choice One to St Louis and Chicago using a 9-seat single-engine Cessna Caravan. The single-engine service has been in place several years, has been well received by airport users, and appears to be stable at this time.

Fort Dodge and Mason City

Fort Dodge and Mason City both lost service from Great Lakes Airlines in 2013 after congressionally mandated flight time rules were put into place by the FAA. These rules reduced the number of qualified pilots that could operate aircraft with more than nine seats, resulting in a discontinuation of service to both communities.

Unable to secure satisfactory new bids from carriers with twin-engine turbine aircraft or regional jets, Air Choice One was selected to provide EAS service to both communities using single-engine, 9-seat Cessna Caravans. Air Choice One service to Chicago began from Mason City in November, 2014. Service to St. Louis is expected to begin from Fort Dodge in February, 2015.

It is worth noting that an issue with Fort Dodge falling below the 10 passenger/day threshold caused by past service disruptions at Great Lakes held up the start of new service in that community until a waiver was approved by the U.S. DOT. In July, 2014, the Iowa DOT, alongside other Fort Dodge stakeholders, submitted a waiver request for Fort Dodge to continue receiving EAS since the community has a proven market that exceeds 10 passengers/day, as long as reliable service is available. The recent dip below 10 passengers per day was attributed to Great Lakes discontinuing service as a result of the pilot shortage brought on by the FAA's new 1,500 hour pilot rule.

Dubuque

The Dubuque Regional Airport operates with a single carrier and is not eligible to participate in the EAS program due to language in the FAA Modernization Act of 2012. Dubuque is in the unique position of being the only airport in Iowa that would lose service and would not be eligible for subsidy if the current provider (American Airlines) pulled out of the market. The airport would, however, be in a position to recruit additional replacement carriers without EAS subsidy.

Cedar Rapids, Des Moines

Airports in Cedar Rapids and Des Moines are multi-carrier airports that do not require, and are not eligible for, EAS subsidies.